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EXHIBITION PLACE

March 3, 2008

ACTION REQUIRED

To: The Board of Governors of Exhibition Place
From: Dianne Young, Chief Executive Officer
Subject: Conference Centre – March Update

Summary:

At its meeting of November 7, 2007, the Board approved of requesting additional funding from City Council related to the increase in the cost of the Conference Centre project from \$29.0M to \$46.88M. As discussed in that report the increase cost for the project stemmed from two major design changes: replacement of the roof and the system redesign to meet LEED silver accreditation.

The Board report was before City Council at its meeting in December 2007 which considered the City's 2008 Capital Program. Along with the Board report was a financial analysis completed by the City Finance Department which supported the Board's direction. Attached as Appendix "A" to this report is a summary of the 2008 Capital Program for Exhibition Place dealing with the Conference Centre and the full report from the City's Finance Department.

The report to the Board meeting of January 25, 2008, from the CEO entitled "Conference Centre Update January 2008" recommended an increase in NORR Architect's base fee from \$968,000 to \$1,700,000 and an additional fee based on performance. On consideration of this report, the Board referred the matter back to staff for further consideration.

In the intervening month there have been further discussions with NORR Architects and this report continues to recommend an increase to the base fee for NORR Architects however the calculation is on a different basis and following negotiations, Exhibition Place staff are not recommending anymore an additional fee based on performance.

Because the total cost of the project has escalated from \$29.0M to \$46.88M (the cost of construction together with the cost of the carpet element in the FF&E, have increased from \$19.0 to \$34.4M), the proposed architecture fee increase reflects the additional work that had to be done by NORR Architects in the new design. The original fee proposal in response to the RFP was based on a percentage of 5.34% of the capital cost which was in Spring 2007 estimated to be \$18,137,000. NORR Architects has indicated that they recognize that as the project costs increase, an economy-of-scale applies to the fee so NORR Architect are proposing to reduce their percentage fee to 4.95% on the new cost of \$34,295,611 (as noted above) which would result in a base fee of \$1,697,633. Any change orders to the base design would also attract a NORR fee at the same percentage of 4.95% on the value of the change order. This fee proposal

has been reviewed by the project managers, MHPM, Exhibition Place staff and the Board subcommittee (Deputy Mayor Pantalone and Rocco Maragna) and think it fairly represents the work undertaken by NORR Architects.

In addition to the base fee, if NORR Architects are requested to do any extra work, an Extra Service Work Order with an estimate cost will be provided by NORR and first approved by the Board in consultation with MHPM and then the actual invoice processed will be based on NORR's blended hourly rate of \$107 per hour. To date, we have requested NORR to perform additional services totally 1,027 hours which at the blended hourly rate would result in an additional cost of \$109,920 to be paid from the project contingency.

Following approval by the Board and City Council, Exhibition Place along with the project manager, MHPM and NORR architects have finalized the design with detailed drawings and the tender documents were released to the short-listed general contractors on January 24, 2008.

Recommendations:

It is recommended that the Board:

- 1) Approve of an amendment of the agreement with NORR Architects as follows:**
 - (a) the base fee will increase to \$1,697,633 based on the increase of the budget for the Conference Centre from \$18.137 to 34.3M and a percentage fee rate of 4.95% of the value of the project;**
 - (b) change orders relating to this base fee design will also be charged a percentage fee rate of 4.95% of the value of the change order;**
 - (c) architectural design work additional to the base design will be approved by the Board in advance and invoice on an hourly blended rate of \$107 per hour;**
- 2) Direct staff to enter into an amending agreement with NORR Architects with respect to the increase fees on terms and conditions stated in this report and others satisfactory to the CEO and City Solicitor.**

Financial Impact:

The increase architectural fees were included as part of the overall increased capital budget approved by the Board at its November meeting and by Council in December 2007.

Decision History:

| | |
|---|---|
| Board of Governors, November 3, 2006 | Approval of business terms for an exclusive food services agreement between the Board and Centreplate and the National Hotel Corporation (the "FSP") related to the provision of food and beverage services within the proposed Conference Centre in the renovated Automotive Building. |
|---|---|

| | |
|---|--|
| Board of Governors, December 15, 2006 | Approval of the terms and conditions of the full LOI between the Board and the FSP for food services within the renovated Conference Centre and the financial proposal for the proposed Conference Centre which included a loan from the National Hotel Corporation for part of the construction costs. |
| City Council, March 5 & 6, 2007 | Approval of LOI between the Board and the FSP for exclusive food services in the proposed Conference Centre. In addition, approval of a recommendation which deleted the need for financing from the National Hotel Corporation and replaced this financing with a City loan of \$21.2M |
| Board of Governors, May 4, 2007 | Approve of the engagement of NORR as the design architect on the Conference Centre project at a total fee of \$968,000 (excluding GST) for Phases I & II |
| Board of Governors November 7, 2007 | Approved increase in the overall Conference Centre capital budget from \$29.0M to \$46.88M with request to City Council to increase its loan to the Board from \$21.2M to \$35.6M with an increase in the interest rate from 4.75 to 5.0 percent and an increase in the amortization period from 20 to 25 years; and request the depletion of the full Exhibition Place Capital Reserve. |
| City Council, December 10, 11, 12, 13 & 14, 2007 | Approval of Board's recommendation as noted above and in addition, increase the term of the loan from twenty to twenty-five years and establish an obligatory reserve fund, called the "Exhibition Place Conference Centre Reserve Fund" to provide a source of funding for any shortfalls in loan payments to the City from Exhibition Place for a new conference centre and direct revenues from the Direct Energy Centre and the Conference Centre naming rights agreements into the fund along with any 2007 operating surplus for Exhibition Place. |
| January 25, 2008 | The Board referred back to staff the report dated January 15, 2008 entitled "Conference Centre - January Update" from the CEO for further consideration of the NORR fee proposal. |

Issue Background:

Because the total cost of the project has escalated from \$29.0M to \$46.88M, the architecture fee increased according as the fee was based on a percentage of the capital cost. The increase in the NORR Architect base fee from \$968,000 to \$1,697,633 (excluding GST) was included as part of the \$46.88M approved by the Board and Council, although it will require an amendment to the agreement between the Board and NORR Architects.

Following approval by the Board and City Council, NORR Architects have undertaken the work for which the increased base fee is being paid. MHPM and NORR Architects have worked with Exhibition Place to finalize the design, detailed drawings and the tender documents which was released to the short-listed general contractors on January 24, 2008.

Comments:

As discussed in the November report to the Board, even with the increased capital funding, projected revenues from the Conference Centre during the first twenty-year period is \$34.5M before repayment of the City \$35.6M loan and \$13.7M after repayment of the loan. These nominal revenues are equivalent to \$19.7M Net Present Value before financing costs and \$7.0M after repayment of the City loan exclusive of the residual value of the building.

After undertaking a sensitivity analysis looking at "worse case scenarios", City Finance concluded that under adverse demand conditions cash flows from operations may fall short of the amounts required to repay the City loan. However, the Direct Energy Centre naming rights should provide adequate revenues to offset these shortfalls. They went on to say that the project's potential inability to generate revenues that will offset the initial construction cost (exclusive of Direct Energy Centre naming rights revenues) must be weighted against the economic benefits that the project will bring through its contribution to the City's overall attractiveness as a major trade and consumer show destination. Economic Development, Culture and Tourism staff have been consulted during the preparation of this report and they have indicated their support for the conference centre project.

Following approval by City Council, the Board's project manager, MHPM and NORR Architect have finalized the design in accordance with the direction presented to the Board in November 7, 2007 and the tender documents and detailed drawings were finalized and released to the short-listed general contractors on January 24, 2008 with an original return date of February 21, 2008. However, all general contractors requested an extension and an addendum was issued to close call March 10, 2008. The tender documents have stated it will be a 56 week construction period.

Because of the increase in the cost of the project (a 62% increase) the architect's fee has increased as it is based on a percentage calculation of the project cost. Following the January Board meeting, a settlement was reached between NORR Architects which Exhibition Place staff are recommending which is as follows:

- (a) a total construction estimate of \$34,295,611 (construction plus carpet element of FF&E);
- (b) a percentage fee of 4.95% on the value of the total construction estimate;
- (c) a percentage fee of 4.95% on the value of any change orders relating to this base design; and,
- (d) for any work that is requested by Exhibition Place and is in addition to the base design, a blended hourly rate of \$107 will apply.

Based on the forgoing terms, NORR Architect's base fee will be \$1,697,633 (excluding GST) which is included in the budget approved by the Board and Council. Additional work requested by MHPM/Exhibition Place to date totals 1,027 hours (ie cistern, photovoltaic, roof panels) which, at the blended rate, will cost \$109,889.00 which will be a cost against the project contingency.

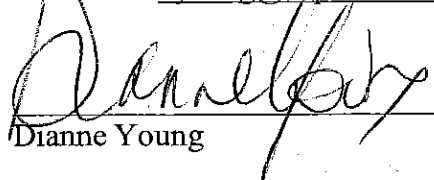
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Dianne Young

Appendix "A"
Toronto City Council Decision Document – December 11, 12 and 13, 2007
Excerpts related to the Capital Budget & Conference Centre Project

Exhibition Place:

Clause 124

The 2008 Recommended Capital Budget for Exhibition Place with a total project cost of \$32.310 million and 2008 cash flow of \$59.507 million be approved. The 2008 Recommended Capital Budget consists of the following:

- a. new cash flow funding for:
 - i. 27 new sub-projects with a total 2008 project cost of \$32.310 million that requires cash flow of \$34.360 million in 2008; and
 - ii. 2 previously approved sub-projects with a 2008 cash flow of \$2.050 million; and
- b. 2007 approved cash flow for 8 previously approved sub-projects with carry forward funding from 2007 into 2008 totalling \$25.147 million.

Clause 125

New debt service costs of \$0.150 million in 2008 and incremental costs of \$0.700 million in 2009, resulting from the approval of the 2008 Recommended Capital Budget, be approved for inclusion in the 2008 and future year operating budgets.

Clause 126

All sub-projects with third-party financing be approved conditionally, subject to the receipt of such funding during 2008 and if such financing is not forthcoming, their priority and funding be reassessed by City Council relative to other City-financed priorities and needs.

Clause 127

The recommendations contained in the report (November 7, 2007) from the Chief Executive Officer, Exhibition Place, entitled "Conference Centre Design and Costing Issues – Exhibition Place", be approved:

- a. approve of the increase in the overall Conference Centre capital budget from \$29.0M to \$46.88M, as contained in the 2008 Budget Committee
- b. increase its loan to the Board from \$21.2M to \$35.6M for the renovation of the Automotive Building to a Conference Centre facility with an increase in the interest rate from 4.75 to 5.0 percent and an increase in the amortization period from 20 to 25 years; and
- c. as before, allow for the depletion of the full Exhibition Place Capital Reserve which as of September 30, 2007 stands at \$1.966M but will receive interest payments of approximately \$0.059 by 2007 year-end for a total of approximately \$2.025M.

Clause 128

The recommendations contained in the report (November 9, 2007) from the Deputy City Manager and Chief Financial Officer, entitled "Financial Assessment of Increased Loan for the Proposed Conference Centre at Exhibition Place", be approved:

a. the terms of the proposed loan from the City to the Board for the conference centre be amended to:

- i. increase the principal amount from \$21.2 million to \$35.6 million;
- ii. increase the term of the loan from twenty to twenty-five years; and
- iii. increase the rate of interest from 4.75% to 5.0%; and

b. the terms of the City loan to the Board of Governors of Exhibition Place be to the satisfaction of the Deputy City Manager and Chief Financial Officer;

c. Council establish an obligatory reserve fund, called the 'Exhibition Place Conference Centre Reserve Fund', with criteria as defined in Appendix 1, to provide a source of funding for any shortfalls in loan payments to the City from Exhibition Place for a new conference centre;

d. the Board of Governors of Exhibition Place be directed to place the revenues from the current and future Direct Energy Centre naming rights agreements into the 'Exhibition Place Conference Centre Reserve Fund';

e. the 2007-2009 and any subsequent Operating Surplus for Exhibition Place be placed into the 'Exhibition Place Conference Centre Reserve Fund', to be reviewed for 2010 and beyond;

f. Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the 'Exhibition Place Conference Centre Reserve Fund' to Schedule '14' – Third Party Agreements Reserve Fund; and

g. leave be granted for the introduction of any necessary bills in Council to give effect thereto.

Clause 129

The 2009-2012 Capital Plan for Exhibition Place totalling \$39.730 million in project estimates, comprised of \$19.160 million in 2009, \$6.070 million in 2010, and \$7.250 million in each of 2011 to 2012, be approved.

Clause 129.1

The HVAC and Lighting at Coliseum Complex and GS Building project for \$1.1 million, funded from non-debt other sources, be deleted, as it is replaced by the allocation of Energy Retrofit funding of \$0.955 million.

Clause 129.2

The following recommendations of the Toronto Preservation Board contained in the communication (December 7, 2007) from the Toronto Preservation Board (EX15.1f), be approved:

1. The alterations to the Automotive Building on the Exhibition Grounds at 2 Strachan Avenue be approved substantially in accordance with the plans by NORR Architects dated August 2007 on file with the Manager of Heritage Preservation Services, and the Heritage Impact Statement prepared by Andre Scheinman dated October 22, 2007, subject to the owner, prior to the completion of the City's alternate site plan approval process for Exhibition Place:
 - entering into a Heritage Easement Agreement with the City;
 - submitting a Conservation Plan, prepared by a heritage consultant and based on the approved Heritage Impact Statement as prepared by Andre Scheinman dated
 - October 22, satisfactory to the Manager, Heritage Preservation Services;
 - submitting plans for interpretive panels or other interpretive materials to communicate the history of the property and the Don Valley brickworks: the research, design, and location of the interpretive materials will be to the satisfaction of the Manager of Heritage Preservation Services;
 - providing a landscape plan for the subject property, satisfactory to the Manager, Heritage Preservation Services; and
 - providing a lighting plan for the subject property, satisfactory to the Manager, Heritage Preservation Services.
2. Authority be granted by City Council for the execution of a Heritage Easement Agreement under Section 37 of the Ontario Heritage Act with the owners of the property at 2 Strachan Avenue (Automotive Building – Exhibition Place).



STAFF REPORT ACTION REQUIRED

Financial Assessment of Increased Loan for the Proposed Conference Centre at Exhibition Place

| | |
|--------------------------|---|
| Date: | November 9, 2007 |
| To: | Budget Committee |
| From: | Deputy City Manager and Chief Financial Officer |
| Wards: | Ward 19 |
| Reference Number: | P:\2007\Internal Services\Bc07011Sp (AFS# 6212) |

SUMMARY

Following Council's original approval of a \$21.2 million loan for the conference centre project in March, 2007, the Board of Governors of Exhibition Place ("the Board") has engaged a project manager, architects and a cost consultant to proceed with a program review and a detailed design. As a result of scope changes arising from a more in-depth examination of the building requirements (which are described in an accompanying report from the Chief Executive Officer of the Board of Governors of Exhibition Place) and allowances for overall construction cost inflation, the overall cost of the project is now estimated to be \$18 million higher than originally forecast.

In order to finance the forecast increase in construction cost, the Board has proposed that the size and term of the loan from the City be increased. The Board is now requesting that the City provide a loan amount of \$35.6 million that would be repaid over a period of twenty-five years beginning in the first full year of conference centre operations.

According to the pro-forma prepared by the Board, the cash flows generated from the operation of the conference centre will not be sufficient to repay the City loan. However, the Board has proposed that the revenues from the naming rights for the Direct Energy Centre be used to cover any shortfall.

Finance staff have used the same type of sensitivity analysis as was described in the Feb. 26, 2007 staff report to assess the potential financial outcomes for the project and to determine whether the Board will have sufficient financial resources to cover shortfalls under adverse demand conditions.

This analysis indicates that under adverse demand conditions cash flows from operations may fall short of the amounts required to repay the City loan. However, the Direct Energy Centre naming rights should provide adequate revenues to offset these shortfalls.

The project's potential inability to generate revenues that will offset the initial construction cost (exclusive of Direct Energy Centre naming rights revenues) must be weighted against the economic benefits that the project will bring through its contribution to the City's overall attractiveness as a major trade and consumer show destination.

Economic Development, Culture and Tourism staff have been consulted during the preparation of this report and they have indicated their support for the conference centre project.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

- 1) the terms of the proposed loan from the City to the Board for the conference centre be amended to:
 - a) increase the principal amount from \$21.2 million to \$35.6 million
 - b) increase the term of the loan from twenty to twenty-five years
 - c) increase the rate of interest from 4.75% to 5.0%
- 2) the terms of the City loan to the Board of Governors of Exhibition Place be to the satisfaction of the Deputy City Manager and Chief Financial Officer;
- 3) Council establish an obligatory reserve fund, called the 'Exhibition Place Conference Centre Reserve Fund, with criteria as defined in Appendix 1, to provide a source of funding for any shortfalls in loan payments to the City from Exhibition Place for a new conference centre;
- 4) the Board of Governors of Exhibition Place be directed to place the revenues from the current and future Direct Energy Centre naming rights agreements into the 'Exhibition Place Conference Centre Reserve Fund';
- 5) the 2007 and any subsequent Operating Surplus for Exhibition Place be placed into the 'Exhibition Place Conference Centre Reserve Fund';
- 6) Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the 'Exhibition Place Conference Centre Reserve Fund' to Schedule '14' – Third Party Agreements Reserve Fund; and
- 7) that leave be granted for the introduction of any necessary bills in Council to give effect thereto;

FINANCIAL IMPACT

As discussed in the accompanying report from the Chief Executive Officer of Exhibition Place, the construction cost estimate for the proposed conference centre project has increased from the \$29 million amount originally reported to Council in March, 2007 to \$46.88 million.

In order to finance this additional amount, the Board has proposed revisions to the funding model for the project. In particular, the Board is proposing that the amount of the City loan be increased from \$21.2 million to \$35.6 million. The Board is also proposing that the loan be repaid over a longer term (25 years rather than 20 years).

In addition, the Board is now assuming that \$3.4 million of the furniture, fixtures and equipment (FF&E) cost can be financed through equipment sponsorship or leasing arrangements.

The revised funding model is summarized below:

| Summary of Capital Funding (\$ millions) - Proposed by the Board of Exhibition Place | |
|---|--------------|
| City Loan | 35.60 |
| Food Services Provider Contribution Towards Food & Beverage Fixtures and Equipment | 4.00 |
| Exhibition Place Capital Reserve fund | 2.02 |
| Exhibition Place 2007 & 2008 Capital Budgets | 1.86 |
| Lease, sponsorship funding for Furniture, Fixtures and Equipment | 3.40 |
| Total: | 46.88 |

In the Board's updated pro-forma income forecast for the project, the greater debt costs are partially offset by the inclusion of the estimated naming rights revenues for the conference centre. These naming rights revenues were not included in the original financial model for the project. However, as a result of a naming rights revenue analysis prepared by the Board's naming rights consultant, and feedback from potential naming rights sponsors, the Board's staff are now confident that a substantial naming rights agreement can be achieved.

The inclusion of the conference centre naming rights revenue results in a substantial increase in project revenues. However, the forecast conference centre naming rights revenues are insufficient to offset the increase in the initial capital cost. According to the pro-forma income statements, the various direct and indirect revenues generated by the project over the financing term will still fall \$7.5 million short (\$5.5 million in present value terms) of the total combined amounts required to fund the loan payments to the City. However, after repayment of the loan, the Board will have a debt-free facility with an original construction cost of \$46.88 million.

The Board has proposed that any shortfalls in the project revenues be funded using revenues derived from the Board's current and future Direct Energy Centre naming rights agreements. To that end, this report recommends that the naming rights revenue for the Direct Energy Centre be placed in a City reserve fund to fund any shortfalls in the City loan payments.

Staff have applied the same alternative demand scenarios used in the earlier analysis to determine the potential extent of these shortfalls under adverse demand conditions and to determine whether the Direct Energy Centre naming rights will provide sufficient funding to

these offset shortfalls. This analysis has indicated that the Direct Energy Centre naming rights revenues will likely provide a sufficient buffer against these shortfalls. In order to further protect the City from any negative financial impact resulting from this revenue-backed loan (ie. no impact on tax-supported debt), this report recommends that any overall annual surpluses generated by the Board through its operations of Exhibition Place also be placed in an obligatory City reserve fund together with the Direct Energy Centre naming rights revenues.

Moreover, the risk of larger than forecast financial shortfalls must be weighed against the benefits that the project will bring through its contribution to the City's overall attractiveness as a major trade and consumer show destination.

According to a study recently completed by the University of Guelph, 2.3 million people visit the GTA each year to attend trade and consumer shows and these shows result in \$1.1 billion in annual expenditures within the GTA. These expenditures are estimated to support approximately 10,000 jobs in the Toronto region.

DECISION HISTORY

At its meeting of March 5, 2007, Council adopted a joint report from the Chief Executive Officer of Exhibition Place and the Deputy City Manager and Chief Financial Officer which recommended extending a loan of \$21.2 million to the Board of Exhibition Place for the construction of the proposed conference centre within the existing Automotive Building.

At its meeting of November 7, 2007, the Board of Exhibition Place adopted a report from the Chief Executive Officer of the Board of Governors of Exhibition Place which recommended an alternative financing plan that would address a significant increase in the projected construction cost for the proposed conference centre.

ISSUE BACKGROUND

Since shortly after the construction and opening of the National Trade Centre (now the Direct Energy Centre) in 1997, staff of Exhibition Place have identified the Direct Energy Centre's lack of meeting room space as an important deficiency relative to the competing trade/conference centres in the Greater Toronto Area.

The availability of meeting/conference space has become an important issue as trade shows increasingly incorporate seminars and "break-out" sessions within their activities. Consequently, the Direct Energy Centre's shortage of such space has resulted in the loss of a number of key clients to other facilities.

In order to address this issue, Exhibition Place has chosen to pursue the redevelopment of the Automotive Building as an alternative to constructing a new conference facility. According to Exhibition Place staff, the conversion of the Automotive Building will achieve the goal of creating a conference facility and also result in the renovation of a building that would otherwise require a minimum of \$4 million in repairs. By constructing a conference centre within the

Automotive Building, Exhibition Place can also take advantage of the tunnel that already links the Automotive Building to the Direct Energy Centre.

Exhibition Place retained Brisbin Brooks Beynon Architects ("BBB") and Altus Helyar Cost Consulting to prepare an estimated construction cost for the proposed conference facility. According to these consultants, the renovation of the Automotive Building into a conference facility with 113,000 square feet of Class 'A' space that meets the LEEDs Gold energy efficiency standard was to cost approximately \$29 million.

However, the design prepared by BBB assumed that columns would be retained in the principal main floor conference area. According to feedback later received by Exhibition Place staff from conference and trade show organizers, these columns would place the conference centre at a severe competitive disadvantage compared to other local facilities. Therefore, Exhibition Place elected to have the design revised to remove these columns. This change to the design was the one of the principal reasons for a sharp increase in the total projected increase in the facility. As a result of this change, other design revisions, and general construction cost inflation, the total estimated cost for the conversion of the Automotive Building to a conference facility has now risen to \$46.88 million.

COMMENTS

Updated Board Pro-Forma

In order to finance the increased capital cost of the proposed conference centre, the Board Board is proposing that the amount of the City loan be increased from \$21.2 million to \$35.6 million. The Board is also proposing that repayment of the loan not begin until the first year of operations, that the loan be repaid over a longer term (25 years rather than 20 years), and that the rate of interest be set at the City's cost of capital of 5%.

As discussed above, the Board is also now assuming that the Board will enter into a naming agreement for the conference centre.

The revisions to the funding model result in the revised Board pro-forma shown below:

Table 2 - Project Pro-Forma Submitted by Board

| | 2009 | 2015 | 2021 | 2027 | Sum (25 years) | |
|---|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| | | | | | Nominal | NPV |
| Conference Centre Revenues from Existing DEC Events | \$515,000 | \$614,937 | \$734,267 | \$876,753 | \$18,976,521 | \$9,551,253 |
| Revenues Resulting from New Events Drawn to DEC | \$665,225 | \$870,118 | \$1,009,070 | \$1,170,212 | \$25,539,293 | \$12,861,016 |
| Revenues from New Conference Centre Events | \$592,950 | \$1,041,462 | \$1,172,855 | \$1,320,828 | \$28,667,355 | \$14,342,684 |
| Incremental Parking Revenues from New Events | \$194,180 | \$272,363 | \$272,363 | \$272,363 | \$6,824,237 | \$3,681,453 |
| Sponsorship & Conference Centre Naming Rights | \$425,000 | \$425,000 | \$625,000 | \$625,000 | \$15,113,610 | \$7,178,570 |
| Total Operating Revenues | \$2,392,355 | \$3,223,880 | \$3,813,555 | \$4,265,154 | \$95,121,016 | \$47,614,975 |
| Operating & Capital Maintenance Costs | (947,037) | (1,144,880) | (1,339,603) | (1,569,281) | (36,344,520) | (17,473,093) |
| Net Income before Financing Costs | \$1,445,318 | \$2,079,000 | \$2,473,952 | \$2,695,873 | \$58,776,496 | \$30,141,883 |
| City Loan (\$35.6 million @ 5% for 25 years) | (2,652,203) | (2,652,203) | (2,652,203) | (2,652,203) | (66,305,071) | (35,600,000) |
| Net Income after Financing Costs | (1,206,885) | (573,202) | (178,251) | 43,670 | (7,528,576) | (5,458,117) |
| Contribution from DEC Naming Rights Revenues | 1,206,885 | 573,202 | 178,251 | (43,670) | 7,528,576 | 5,458,117 |
| Balance in DEC Naming Rights Reserve | 692,752 | 1,393,578 | 4,652,830 | 12,238,642 | | |

This pro-forma is based on the same demand forecast used in the previous staff report adopted by Council in March, 2007. Economic Development, Culture and Tourism staff have advised that their positive assessment of this forecast (as described in a report by EDCT staff adopted by Council in March, 2007), remains valid. EDCT staff have verified with industry stakeholders that there continues to be strong demand for meetings, conference and special event business in Toronto.

Based on the original demand forecast, the Board's pro-forma indicates that revenues generated by the conference centre over the loan repayment period will fall approximately \$7.5 million (\$5.5 million in present value terms) short of the amount required to repay the increased debt service payments. However, there is adequate funding available from the Direct Energy Centre naming rights revenues to offset this shortfall.

Sensitivity Analysis of Revised Loan Proposal

As discussed in greater detail in the Feb. 26, 2007 report from the Chief Executive Officer and Deputy City Manager and Chief Financial Officer, there is potential for the actual financial results to deviate from those forecast in the proformas prepared by the Board's staff.

In the Feb. 26, 2007 analysis, two adverse demand scenarios were used to apply different levels of stress on the financial model. These same scenarios were applied again with one modification (see Table 3). In addition to the reductions in the forecast demand for conference centre and Direct Energy Centre space, these scenarios were modified to also reflect a more conservative assumption with respect to the financing of the furniture, fixtures and equipment (FF&E) in the building. The Board's pro-forma assumes that none of the \$3.4 million FF&E cost will have to be repaid using the conference centre revenues. This expectation is based on the prospect of having manufacturers sponsor some of the equipment (as they do in the Direct Energy Centre) and being able to borrow some of the necessary equipment and furniture from the Direct Energy Centre. In order to reflect the possibility that sponsorship may be less likely in the conference centre (because the manufacturer's name will be exposed to much smaller number of people), it has been assumed in the sensitivity analysis that 25% (\$850,000) of the FF&E will have to be repaid from conference centre revenues.

Scenario #1, which reduces the forecast revenue from new conference centre events by 20% (to reflect a greater-than-anticipated level of competition from other meeting venues such as hotels, banquet halls and other facilities) results in an increase in the projected shortfall from \$7.5 million (in the Board's pro-forma) to \$12.7 million (\$8.8 million in net present value terms). Based on the naming rights revenue forecast provided by the Board's consultant, the reserve fund created with the Direct Energy Centre naming revenues would have sufficient funds to offset this shortfall. However, the repayment schedule for the loan would have to be adjusted to reduce the payments at the beginning of the term (for instance, through interest-only payments for the first four years and then amortization of the \$35.6 million amount over the remaining twenty-one years).

The second scenario adds to the first by reducing the additional revenue earned by the Board as a result of new trade shows attracted to the Direct Energy Centre as a result of the availability of new meeting room space in the conference centre. This second scenario assumes that the Direct Energy Centre is only able to attract 75% of the forecasted number of new average-sized events because of competition from other conference/trade show venues that can host this scale of event (other, smaller conference/trade show venues hold advantages such as central location or free parking). Making this further adjustment to the model results in an increased total shortfall of \$16.1 million (\$10.6 million). The forecast naming rights revenue amounts in the reserve fund would still be sufficient to offset this shortfall. However, once again, the repayment schedule would have to be adjusted to reduce the payments at the beginning of the term.

| Scenario | Description | Total Net Cash Flows Over 25 Years (\$ million) | | Reserve Fund Balance at Year 25 (\$ million)* | |
|-----------------|--|---|-------------------|---|---------------|
| | | Nominal | Net Present Value | Nominal | Present Value |
| Board Pro-Forma | Board Pro-Forma | (7.5) | (5.5) | 25.8 | 7.6 |
| Scenario #1 | 20% Reduction in Forecast Conference Centre Events and repayment of \$0.85 million of FF&E using Centre revenues | (12.7) | (8.8) | 13.8 | 4.1 |
| Scenario #2 | Scenario #1 plus 25% Reduction in New Average-Sized Events Attracted to Direct Energy Centre | (16.1) | (10.6) | 7.7 | 2.3 |

* - net of debt service contributions

The sensitivity analysis suggests that competition from other facilities may result in shortfalls that are greater than the shortfalls identified in the Board's proformas. The forecast Direct Energy Centre naming rights contract would be sufficient to fund the shortfall resulting from the most extreme of the sensitivity analysis scenarios examined in this analysis. However, in order to further protect the City against any shortfall, it is recommended that the Board also contribute any overall surpluses generated through Exhibition Place operations to the Conference Centre Reserve Fund established for repayment of the City loan.

Appendix 1

Exhibition Place Conference Centre Reserve Fund

(a) Location within the Consolidated Reserve Fund Schedule

Account within Schedule #14– Third Party Agreements Reserve

(b) Statement of Purpose

This account will be used to provide a source of funding for any shortfalls in loan payments to the City from Exhibition Place for the new conference centre.

(c) Service Area or Beneficiary Program

Deputy City Manager and Chief Financial Officer shall have primary responsibility for the account.

(d) Initial Contribution:

It is estimated that \$600,000 will be available from naming rights revenue in 2008.

(e) Contribution Policy

Net cash flow derived from Exhibition Place's existing and future Direct Energy Centre naming rights along with any Exhibition Place operating surpluses will be provided annually when cash is received.

(f) Withdrawal Policy:

Funds may be withdrawn by the Deputy City Manager/Chief Financial Officer should there be a funding short fall in loan payments to the City from Exhibition Place on an as needed basis.

(g) Review Cycle

The account will be reviewed in five years or more often if requested by the Chief Executive Officer of Exhibition Place. Should the experience dictate at that time, that there is sufficient cash generated to pay the City loan from the conference centre operations, then the purpose of the fund could be expanded to include the original purpose to which these funds were to be directed namely environmental sustainability initiatives at Exhibition Place.